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February 11, 2003 LB 218, 355

SENATOR CUDABACK: LB 218 does advance. Mr. Clerk, next agenda item.

CLERK: LB 355, by the Revenue Committee. (Read title.) Bill was introduced on January 14, referred to the Revenue Committee, advanced to General File. There are committee amendments. (AM0120, Legislative Journal page 339.)

SENATOR CUDABACK: Thank you, Mr. Clerk. Senator Landis, Chairman of Revenue Committee, you're recognized to open on LB 355.

SENATOR LANDIS: Thank you, Senator Cudaback, members of the Legislature. LB 355 is a bill that was brought to us essentially by the Revenue Department. If you'll notice, our Tax Commissioner appeared in support of the bill. There has been a question as to the applicability of our income tax to income from a nonresident individual, a board of directors member, who comes to the state of Nebraska for one of our corporations' board of directors meetings. Income earned in this state is taxed by this state, as a general rule, so we are extending, or making clear, that general principle to this area. Now, the Department of Revenue has always said, look, that is the rule; it should apply. However, there have been questions upon audits of corporations who have not essentially paid for their directors' times by providing, you know, money to the state on this basis. In other words, it appears at the audit stage of which there is some resistance to paying what the Department of Revenue sees as being a clear obligation under existing law. So, to make that clearer, there was the request to essentially reiterate that rule in this area, and the rule says some of the service... of this says is that a compensation paid by a business shall constitute income derived from sources within this state, so this is a definition. Compensation paid by a business is income if some of the service as a corporate director is performed in this state, and the headquarters of the corporation is in this state, but does not include any fees directly attributable to attendance at board meetings outside the state. What does that mean? That means if you are a board of director of a corporation and the corporation is a Nebraska corporation and you have a corporate directors meeting in